

Message Text

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SUBJ: BANK OF GREECE GOVERNOR ZOLOTAS REVIEWS GREEK ECONOMIC
POLICIES

REF A. ATHENS 3541 B. ATHENS A-55

SUMMARY AND OVERVIEW: IN HIS STATEMENT FOR THE ANNUAL
BANK OF GREECE SHAREHOLDERS' MEETING ON APRIL 29
GOVERNOR XENOPHON ZOLOTAS REVIEWED RECENT ECONOMIC
DEVELOPMENTS, AND PROBLEMS AND PROSPECTS FOR THE FUTURE.
DUE TO ZOLOTAS' PARTICULARLY PROMINENT POSITION AMONG
THE ARCHITECTS OF THE NATIONS ECONOMIC POLICY THE
STATEMENT HAS RECEIVED CONSIDERABLE LOCAL ATTENTION.
ZOLOTAS CHARACTERIZED ECONOMIC DEVELOPMENTS AS A WHOLE
IN 1975 AS "SATISFACTORY", ALTHOUGH HE DESCRIBED
PRICE DEVELOPMENTS AS ADVERSE. FOR 1976, ZOLOTAS
CONFIRMED STATEMENTS BY OTHER GOG SPOKESMAN (SEE
ATHENS 3541) THAT GOVERNMENT HOPES TO ACHIEVE A FOUR
TO FIVE PERCENT REAL GDP GROWTH, TO HOLD INFLATION
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BELOW 10 PERCENT, AND TO MINIMIZE THE BALANCE OF PAY-

MENTS GAP. MONETARY AND CREDIT POLICY WILL BE AIMED AT MINIMIZING INFLATIONARY PRESSURES WHILE INSURING SUFFICIENT LIQUIDITY TO SUPPORT DESIRED GROWTH LEVELS. WITH RESPECT TO FISCAL POLICY, A HIGH LEVEL OF DEFICIT FINANCING HAS BEEN NECESSARY TO STIMULATE ECONOMIC RECOVERY, BUT GRADUAL APPLICATION OF LESS EXPANSIONARY POLICY WILL BE APPROPRIATE AS RECOVERY IS ACHIEVED. FOR THE LONGER TERM, PRIMARY TARGET IS THE RESTRUCTURING OF THE ECONOMY WHICH WILL PROVIDE A SOUND BASE FOR FUTURE ECONOMIC DEVELOPMENT TO ENABLE GREECE TO BECOME A COMPETITIVE MEMBER OF THE EUROPEAN COMMUNITY (EC), AND SIGNIFICANTLY AMELIORATE THE BALANCE OF PAYMENTS PROBLEM. ZOLOTAS STRESSED THE ABSOLUTE NECESSITY OF INCREASED PRIVATE INVESTMENT, BOTH TO SUSTAIN THE CURRENT TREND TOWARD ECONOMIC RECOVERY AND TO MAKE POSSIBLE THE RESTRUCTURING EFFORT. HE EXHORTED THE HELLENIC INDUSTRIAL DEVELOPMENT BANK AND THE NEWLY CREATED BANKING CONSORTIUM TO INCREASE THEIR EFFORTS TO STIMULATE INVESTMENT, AND THE PUBLIC SERVICE TO INCREASE ITS PRODUCTIVITY. END SUMMARY

1. PRICES AND INCOMES - ZOLOTAS CONCEDED THAT THE CONSUMER PRICE INDEX RISE OF OVER 15 PERCENT IN 1975, ALTHOUGH PARTIALLY DUE TO IMPORT PRICES AND HIGHER INDIRECT TAXES, WAS AN "ADVERSE DEVELOPMENT". HE CHARACTERIZED THE EFFORT TO HOLD INFLATION RATE TO BELOW TEN PERCENT AS "A CENTRAL OBJECTIVE" OF 1976 ECONOMIC POLICY. AN IMPORTANT TOOL IN THE ANTI-INFLATION DRIVE WILL BE MONETARY POLICY, AND SPECIFICALLY THE LIMITATION OF THE RATE OF INCREASE IN CURRENCY IN CIRCULATION TO 12 PERCENT, A LEVEL HE FEELS ADEQUATE TO SUPPORT DESIRED OVERALL ECONOMIC GROWTH. ZOLOTAS CITED HIGH RATE OF INCREASE IN WAGES AS A PRINCIPAL FACTOR UNDERLYING THE 1975 RISE IN PRICES, ESTIMATING A 24 PERCENT RISE IN LABOR COST FOR MANUFACTURING SECTOR BETWEEN THIRD QUARTER OF 1974 AND FOURTH OF 1975. GOG'S INFLATION GOAL FOR 1976 IS BASED ON PREMISE THAT RATE OF INCREASE IN WAGES WILL BE REDUCED. (SEPTEL FOLLOWS ON PROPOSED LEGISLATION ESTABLISHING AN ADVISORY COMMITTEE TO FOCUS ON INFLATION AND WAGES). LIMITED OFFICIAL USE

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WITH RESPECT TO OTHER ANTI-INFLATIONARY STEPS, ZOLOTAS ADVOCATED MEASURES TO REDUCE MIDDLE-MEN'S CHARGES IN THE MARKETING OF AGRICULTURAL PRODUCTS, AND TO PREVENT EXCESSIVE BUSINESS PROFITS.

2. CREDIT POLICY - A FLEXIBLE CREDIT POLICY WILL BE TAILORED TO MEET THE DUAL REQUIREMENTS OF ADEQUATE AVAILABILITY OF FINANCING FOR PRODUCTIVE INVESTMENT

AND AVOIDANCE OF EXCESS LIQUITY. LONG-TERM LENDING RATES WILL BE KEPT LOWER THAN SHORT-TERM COMMERCIAL BANK LOANS TO HELP ENCOURAGE INDUSTRIAL INVESTMENT. A REFORM OF THE PRESENT CREDIT SYSTEM IS BEING CONTEMPLATED WHICH MAY RESULT IN SIMPLIFIED CONTROLS AND REGULATIONS, GRANTING THE BANKS SOMEWHAT GREATER LATITUDE IN GRANTING LOANS, BUT ALSO ESTABLISHING NEW GUIDELINES TO INSURE PRIORITY ATTENTION TO PRODUCTIVE INVESTMENT.

3. PUBLIC SECTOR BORROWING (SEE ATHENS A-55) - THE EXPANSIONARY EFFECT OF LARGE-SCALE DEFICIT FINANCING OF THE PUBLIC SECTOR WAS NECESSARY OVER THE PAST TWO YEARS TO STIMULATE THE ECONOMY. ZOLOTAS BELIEVES THAT "IT IS ESSENTIAL THAT PUBLIC SECTOR BORROWING REQUIREMENTS BE GRADUALLY RESTRICTED." WHILE CITING INCREASED EXPENDITURES ON NATIONAL SECURITY AND IMPROVED SOCIAL SERVICES AS ESSENTIAL, HE CALLED FOR A SUBSTANTIAL IMPROVEMENT IN THE PRODUCTIVITY OF THE GOVERNMENT AND PUBLIC ENTERPRISES AND FOR A REVIEW OF PUBLIC SECTOR INVESTMENT PROGRAMS TO WEED OUT UNPRODUCTIVE PROJECTS.

4. BALANCE OF PAYMENTS - STATEMENT ADHERES TO LINE GENERALLY FOLLOWED BY GOG SPOKESMEN ON 1975 FIGURES. IGNORING THE ENORMOUS \$220 MILLION ERRORS AND OMISSIONS FIGURE, ZOLOTAS REFERS TO IMPROVEMENT IN CURRENT ACCOUNT DEFICIT AT ONE BILLION DOLLARS. HE CLAIMS CREDIT FOR DRACHMA DEVALUATION IMPROVING INTERNATIONAL COMPETITIVENESS OF GREEK PRODUCTS, BUT HE OBSERVES THAT PROBLEM IS BASICALLY STRUCTURAL, AND CAN ONLY BE RESOLVED THROUGH DEVELOPMENT.

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5. EC MEMBERSHIP AND ECONOMIC DEVELOPMENT - EC MEMBERSHIP MEANS KEENER COMPETITION, AND WILL REQUIRE "CONSIDERABLE CHANGES IN THE STRUCTURE OF THE ECONOMY, A HIGHER DEGREE OF SPECIALIZATION, INCREASED EXPORT ORIENTATION, INSTITUTIONAL REFORMS, AND CHANGE IN WORKING METHODS AND HABITS." A REVAMPING OF GOVERNMENT INCENTIVES, INTERVENTIONS AND REGULATIONS IS NECESSARY TO ELIMINATE OBSTACLES TO THE MARKET MECHANISM AND PROMOTE MORE EFFICIENT FIRMS. AT THE SAME TIME, ZOLOTAS TAKES A NOT UNCHARACTERISTIC SWIPE AT MONOPOLIST, CALLING FOR THE CONTROL OF MONOPOLY PROFITS AND THE ESTABLISHMENT OF MORE COMPETITIVE CONDITIONS. A RECOVERY OF INDUSTRIAL INVESTMENT IS "IMPERATIVE" TO ASSURE GREECE'S COMPETITIVENESS IN THE EC AND ENHANCE ITS EXPORT ORIENTATION. IN THE FULL GREEK TEXT HE CHIDES THE

HELLENIC INDUSTRIAL DEVELOPMENT BANK (ETVA) FOR NOT
PLAYING A MORE ACTIVE ROLE IN DISPELLING THE INVESTMENT
SLUMP. HE EXHORTS BOTH ETVA AND THE RECENTLY ESTABLISHED
HELLENIC INDUSTRIAL AND MINING INVESTMENT COMPANY TO FORGE
AHEAD IN THEIR TASK OF STIMULATING INVESTMENT. HE
EMPHASIZES THAT THEIR ENDEAVORS SUPPLEMENT THE PRIVATE
SECTOR, AND DO NOT COMPETE WITH PRIVATE INTERESTS.
STEARNS

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